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Indonesia

Cotton and Products Update

Indonesia Cotton and Products Update Nov 2016

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Report Highlights:

Depressed consumer purchasing power in Indonesia and weaker export markets for finished Indonesian textiles has driven Post's estimate of MY2015/16 Indonesian cotton consumption to 2.94 million bales from the previous estimate of 3.0 million bales. MY 2015/16 Indonesian cotton imports, in-line with consumption, are also expected to decrease from 3.0 to 2.9 million bales. Indonesian cotton imports are also expected to continue declining in MY 2016/17 to 2.75 million bales.

Post:
Jakarta

Situation and Outlook

Executive Summary

Weak demand in importing countries is driving Indonesian textile export declines. Depressed consumer purchasing power, exacerbated by the weak rupiah, is also resulting in lower domestic sales of textiles in the Indonesian market. Post therefore estimates MY 2015/16 Indonesian cotton imports at 2.9 million bales compared 3.345 million bales in MY 2014/15. Post expects MY 2016/17 Indonesian cotton imports to further decrease to 2.75 million bales due to the same factors. The Indonesian Textile Association (API, *Asosiasi Pertekstilan Indonesia*) reported that the value of Indonesian textiles and textile product exports during the period of January to July 2016 declined by 4.8 percent compared to the same period in 2015, (from \$3.11 billion to \$2.96 billion). This includes a significant decrease of cotton fabrics exports from 138,000 MT in CY 2014 to 16,000 MT during the January-August 2016 period. Japan, Belgium, Italy, and the United States are Indonesia's major export destinations for cotton fabric.

The Indonesian rupiah has ranged from Rp. 13,204/\$1 at the end of April, 2016 to Rp. 13,084/\$1 on November 9, 2016.

Production

There are no updates on Indonesian cotton production. Indonesian cotton production is dwindling and lacks of incentives to grow. Therefore, Post maintains MY 2015/16 and MY 2016/17 Indonesian cotton production unchanged at five million bales.

Consumption

The Indonesian spinning sector produced spun yarn and sewing thread from 288 companies in CY 2015 (two new companies were added in 2015). Industry sources report that the Indonesian spinning industry consumed a total of 1.842 MMT of fiber as raw material annually, consisting of cotton (34.8 percent), man-made fiber (65 percent), and others (0.1 %) in CY2015. Indonesia exported approximately 45 percent of its yarn production in 2015. In CY 2014, Indonesian spinning mills ran at 80.76 percent capacity, with a total of 11.75 million spindles. In CY 2015, spinning mills, with total installed capacity of 11.92 million spindles, only ran 65.38 percent capacity due to the following factors:

- Indonesian producers are reporting an over-supply of finished products at mills since mid-2016. The Indonesian Textile Association (API, *Assosiasi Pertekstilan Indonesia*) reports that the weak economic situation in importing countries has reduced demand for Indonesian textile products, with clothing exports during the January to August 2016 period to the United States, European Union, and Japan declining by 3.71 percent, 3.0 percent, and 8.3 percent, respectively, compared to the same period in 2015.

- The Indonesia Statistics Agency (*BPS, Badan Pusat Statistik*) reported that imports of woven fabrics, knitted fabrics, twine, and synthetic fibers during the period of January to August 2016 increased by 34.39 percent, 2.99 percent, 11.81 percent, and 13.62 percent respectively, compared to the same period of last year.
- Indonesian textile and textile products continue to face fierce competition from illegal imports of yarn, fabrics, garment, and other textile products.
- The low cost of fossil fuels has widened the cost of production spread between synthetic and cotton spinning, implying that cotton is less competitive. Additionally, Indonesian currency remains weak (Rp. 13,084 = \$1 as of November 9, 2016).
- The weak rupiah continues to depress Indonesian consumer purchasing power.
- Facing difficult market conditions, some textile manufacturers are surviving by holding off cotton imports in order to maintain cash flows and minimize speculation on fluctuating cotton import prices. Unlike synthetics, cotton importers are obligated to maintain at least two month's supply.

Considering these challenges, Post estimates that MY 2015/16 Indonesian cotton consumption will decrease to 2.94 million bales from the previous estimate of 3.0 million bales. Fierce competition with imported products in the domestic market and slower demand from the international market will further push down MY 2016/17 Indonesian cotton consumption to 2.74 million bales.

Stocks

Fluctuating cotton prices and rising storage costs prevent Indonesian spinners from maintaining large inventories. As a result, spinners prefer to source raw materials on an as-needed basis. Therefore, Post estimates Indonesian ending stocks will decline from 597,000 bales in MY 2014/15 to 549,000 bales in MY 2015/16, tracking with expected lower imports and consumption. MY2016/17 ending stocks are expected to remain stable at 549,000 bales, in line with expectations of declining imports and consumption of cotton.

Marketing

Manufacturers with stronger cash flows are investing in new spinning machinery, thus expanding production capacity. This contrasts with smaller mills that are largely dependent on older, less efficient spinning technology. However, higher labor and electricity costs, depressed consumer purchasing power, and weak demand from ASEAN and European importers are expected to reduce Indonesian cotton imports in MY 2015/16. This is further supported by 2014/15 finished goods carry-over stocks, which manufacturers need to clear in order to maintain cash flows and resume imports of raw materials.

Based on the above-mentioned situation and import data, Post estimates MY 2015/16 Indonesian cotton imports at 2.9 million bales compared 3.345 million bales in MY 2014/15. Post forecasts MY 2016/17 Indonesian cotton imports to further decrease to 2.75 million bales due to the same factors.

The Indonesian Textile Association (*API, Asosiasi Pertekstilan Indonesia*) reported that the value of Indonesian textiles and textile product exports during the period of January to July 2016 declined by 4.8 percent compared to the same period in 2015, (from \$3.11 billion to \$2.96 billion). This includes a significant decrease of cotton fabrics exports from 138,000 MT in CY 2014 to 16,000 MT during the

January-August 2016 period. Japan, Belgium, Italy, and the United States are Indonesia's major export destinations for cotton fabric.

The United States was the largest cotton supplier to Indonesia during the August 2015 to July 2016 period, with a total market share of 31 percent. Brazil, Australia, and India followed with 29 percent, 12 percent, and 11 percent market share respectively. Despite quality issues, Indian, Brazilian, and African cotton are considered adequate by Indonesian industry standards. Indonesia's primary yarn export destinations during the period of January to May 2016 were China (60 percent), Japan (13 percent), and Bangladesh (7 percent).

I. Statistical Tables

TABLE 1. PSD COTTON (HS CODE 5201) IN BALES

| Cotton | 2014/2015 | | 2015/2016 | | 2016/2017 | |
|----------------------|---------------|----------|---------------|----------|---------------|----------|
| Market Begin Year | Aug 2014 | | Aug 2015 | | Aug 2016 | |
| Indonesia | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| | | | | | | |
| Area Planted | 7 | 7 | 4 | 4 | 4 | 4 |
| Area Harvested | 6 | 6 | 3 | 3 | 3 | 3 |
| Beginning Stocks | 500 | 500 | 597 | 597 | 587 | 549 |
| Production | 9 | 9 | 5 | 5 | 5 | 5 |
| Imports | 3345 | 3345 | 3000 | 2900 | 2900 | 2750 |
| MY Imports from U.S. | 0 | 705 | 0 | 692 | 0 | 550 |
| Total Supply | 3854 | 3854 | 3602 | 3502 | 3492 | 3304 |
| Exports | 7 | 7 | 15 | 13 | 5 | 10 |
| Use | 3250 | 3250 | 3000 | 2900 | 2900 | 2700 |
| Loss | 0 | 52 | 0 | 40 | 0 | 40 |
| Total Dom. Cons. | 3250 | 3302 | 3000 | 2940 | 2900 | 2740 |
| Ending Stocks | 597 | 597 | 587 | 549 | 587 | 554 |
| Total Distribution | 3854 | 3906 | 3602 | 3502 | 3492 | 3304 |
| Stock to Use % | 18.33 | 18.33 | 19.47 | 18.85 | 20.21 | 20.44 |
| Yield | 327 | 327 | 363 | 363 | 363 | 363 |

Note: Last column of each marketing year is not official USDA data.

TABLE 2. PSD COTTON (HS CODE 5201) IN MT

| Cotton | 2014/2015 | 2015/2016 | 2016/2017 |
|--------------|-----------|-----------|-----------|
| Market Begin | Aug 2014 | Aug 2015 | Aug 2016 |

| Year | | | | | | |
|-------------------------|------------------|----------|------------------|----------|------------------|----------|
| Indonesia | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| | | | | | | |
| Area Planted | 7 | 7 | 4 | 4 | 4 | 4 |
| Area Harvested | 6 | 6 | 3 | 3 | 3 | 3 |
| Beginning Stocks | 108,863 | 108,863 | 129,983 | 129,983 | 127,805 | 119,532 |
| Production | 1,960 | 1,960 | 1,089 | 1,089 | 1,089 | 1,089 |
| Imports | 728,295 | 728,295 | 653,179 | 631,407 | 631,407 | 598,748 |
| MY Imports from U.S. | - | 153,497 | - | 150,667 | - | 119,750 |
| Total Supply | 839,118 | 839,118 | 784,251 | 762,478 | 760,301 | 719,368 |
| Exports | 1,524 | 1,524 | 3,266 | 2,830 | 1,089 | 2,177 |
| Use | 707,611 | 707,611 | 653,179 | 631,407 | 631,407 | 587,861 |
| Loss | - | 11,322 | - | 8,709 | - | 8,709 |
| Total Dom. Cons. | 707,611 | 718,933 | 653,179 | 640,116 | 631,407 | 596,570 |
| Ending Stocks | 129,983 | 129,983 | 127,805 | 119,532 | 127,805 | 120,620 |
| Total Distribution | 839,118 | 850,439 | 784,251 | 762,478 | 760,301 | 719,368 |
| Stock to Use % | 18.33 | 18.33 | 19.47 | 18.85 | 20.21 | 20.44 |
| Yield | 327 | 327 | 363 | 363 | 0 | 363 |

Note: Last column of each Marketing Year is not official USDA data.

TRADE MATRIXES

TABLE 3. COTTON IMPORT TRADE MATRIX (MY 2014 - 2016)

| | | | | | |
|-------------------|------------------|-------------------|-----------------|-------------------|-----------------|
| Country | Indonesia | | | | |
| Commodity | Cotton | | | | |
| Time Period | Aug - Jul | Units: | 1,000 MT | Units: | 1,000 MT |
| Imports for: | 2013/14 | Imports for: | 2014/15 | Imports for: | 2015/16 |
| U.S. | 152 | U.S. | 213 | U.S. | 151 |
| Others | | Others | | Others | |
| Brazil | 115 | Brazil | 186 | Brazil | 142 |
| Australia | 79 | Australia | 54 | Australia | 60 |
| India | 56 | Burkina Faso | 34 | India | 52 |
| Cote d'Ivoire | 34 | Greece | 31 | Benin | 23 |
| Mali | 25 | Cote d'Ivoire | 29 | Cote d'Ivoire | 20 |
| Burkina Faso | 21 | Pakistan | 29 | Burkina Faso | 20 |
| Greece | 16 | Argentina | 26 | Greece | 19 |
| Tanzania | 16 | Mali | 26 | Mali | 17 |
| Pakistan | 15 | India | 22 | Pakistan | 13 |
| Mozambique | 13 | Benin | 18 | Malaysia | 12 |
| Argentina | 12 | Cameroon | 11 | Zambia | 12 |
| Malaysia | 7 | South Africa | 9 | Argentina | 11 |
| Spain | 6 | Spain | 7 | Zimbabwe | 9 |
| South Africa | 6 | Togo | 7 | Togo | 8 |
| Uganda | 4 | Mexico | 3 | Mexico | 7 |
| Paraguay | 1 | Malaysia | 3 | Spain | 5 |
| Senegal | 1 | China | 2 | Mexico | 4 |
| Total for Others | 427 | Total for Others | 497 | Total for Others | 434 |
| Others not Listed | 80 | Others not Listed | 18 | Others not Listed | 40 |
| Grand Total | 659 | Grand Total | 728 | Grand Total | 625 |

Source: Global Trade Atlas.

TABLE 4. COTTON EXPORT TRADE MATRIX (MY 2014 – 2016)

Export Trade Matrix

| | | | | | |
|-------------------|----------------------|--------------|---------|-----------|----------|
| Country | Indonesia | | | | |
| Commodity | Cotton, HS Code 5201 | | | | |
| Time Period | Aug-Jul | Units: | | Units: | MT |
| Exports for: | 2013/14 | | 2014/15 | | 2015/16* |
| U.S. | 0 | U.S. | 0 | U.S. | 0 |
| Others | | Others | | Others | |
| Vietnam | 173 | Vietnam | 747 | Vietnam | 1242 |
| Sri Lanka | 148 | Sri Lanka | 349 | Sri Lanka | 498 |
| Taiwan | 132 | Malaysia | 144 | Malaysia | 394 |
| | | China | 77 | Taiwan | 299 |
| | | India | 53 | India | 263 |
| | | Taiwan | 32 | China | 98 |
| | | Saudi Arabia | 21 | Hong Kong | 40 |
| | | Japan | 18 | Japan | 35 |
| | | | | | |
| Total for Others | 453 | | 1441 | | 2869 |
| Others not Listed | 0 | | 13 | | 21 |
| Grand Total | 453 | | 1454 | | 2890 |

Note: 2015/16 only for the period of Aug 2015 to May 2016

Source: Global Trade Atlas.

TABLE 5. COTTON YARN IMPORT TRADE MATRIX (CY 2014 – 2016)

Import Trade Matrix

| | | | | | |
|-------------------|-----------|-------------------|----------|-------------------|----------|
| Country | Indonesia | | | | |
| Commodity | Yarn | | | | |
| Time Period | Jan-Dec | Units: | 1,000 MT | Units: | 1,000 MT |
| Exports for: | 2014 | | 2015 | | 2016* |
| U.S. | 0 | U.S. | 0 | U.S. | 0 |
| Others | | Others | | Others | |
| India | 9 | India | 10 | India | 6 |
| South Korea | 4 | China | 2 | China | 1 |
| China | 3 | South Korea | 1 | | |
| Hong Kong | 1 | Hong Kong | 1 | | |
| | | | | | |
| Total for Others | 17 | Total for Others | 14 | Total for Others | 7 |
| Others not Listed | 1 | Others not Listed | 1 | Others not Listed | 1 |
| Grand Total | 18 | Grand Total | 15 | Grand Total | 8 |

Note: *only for the period of Jan- May 2016

Source: Global Trade Atlas.

TABLE 6. COTTON YARN EXPORT TRADE MATRIX (CY 2014 – 2016)

Export Trade Matrix

Country Indonesia
Commodity Yarn

| | | | | | |
|-------------------|---------|-------------------|----------|-------------------|----------|
| Time Period | Jan-Dec | Units: | 1,000 MT | Units: | 1,000 MT |
| Exports for: | 2014 | | 2015 | | 2016* |
| U.S. | 1 | | 2 | | 1 |
| Others | | Others | | Others | |
| China | 93 | China | 104 | China | 40 |
| Japan | 21 | Japan | 19 | Japan | 9 |
| South Korea | 7 | South Korea | 9 | Bangladesh | 5 |
| Hong Kong | 6 | Hong Kong | 5 | South Korea | 4 |
| Malaysia | 2 | Bangladesh | 4 | Hong Kong | 1 |
| Germany | 1 | South Africa | 1 | Portugal | 1 |
| Guatemala | 1 | Vietnam | 1 | | |
| Turkey | 1 | | | | |
| | | | | | |
| Total for Others | 132 | Total for Others | 143 | Total for Others | 60 |
| Others not Listed | 4 | Others not Listed | 10 | Others not Listed | 6 |
| Grand Total | 137 | Grand Total | 155 | Grand Total | 67 |

Note: *for the period of Jan-May 2016 only.

Source: Global Trade Atlas.

TABLE 7. COTTON FABRIC IMPORT TRADE MATRIX (CY 2014 - 2016)

Import Trade Matrix

Country Indonesia

Commodity Fabric

| | | | | | |
|-------------------|----------|-------------------|-----------|-------------------|-----------|
| Units: | 1,000 MT | Units: | | Units: | |
| Time Period | Jan-Dec | Time Period | Jan - Dec | Time Period | Jan - Aug |
| Exports for: | 2014 | Exports for: | 2015 | Exports for: | 2016 |
| U.S. | 2 | U.S. | | U.S. | |
| Others | | Others | | Others | |
| China | 229 | China | 191 | China | 24 |
| Korea, Rep. of | 78 | Korea, Rep. of | 56 | Korea, Rep. of | 9 |
| Hong Kong | 61 | Hong Kong | 53 | Hong Kong | 6 |
| Pakistan | 12 | Pakistan | 9 | Pakistan | 1 |
| Malaysia | 10 | Taiwan | 9 | Taiwan | 1 |
| Vietnam | 9 | India | 9 | India | 1 |
| Japan | 8 | Vietnam | 5 | | |
| Taiwan | 8 | Japan | 2 | | |
| India | 7 | Turkey | 2 | | |
| Italy | 2 | Thailand | 2 | | |
| Macau | 2 | Malaysia | 1 | | |
| Turkey | 2 | | | | |
| Thailand | 1 | | | | |
| Belgium | 1 | | | | |
| | | | | | |
| Total for Others | 430 | Total for Others | 339 | Total for Others | 42 |
| Others not Listed | 5 | Others not Listed | 3 | Others not Listed | 2 |
| Grand Total | 437 | Grand Total | 342 | Grand Total | 44 |

Source: Global Trade Atlas.

TABLE 8. COTTON FABRIC EXPORT TRADE MATRIX (CY 2014 - 2016)

Export Trade Matrix

Country Indonesi
a

| Commodity | Fabric | | | | |
|-------------------------|-------------|-------------------------|-------------|----------------------|-------------|
| Units: | 1,000 MT | | | | |
| Time Period | Jan-Dec | | Jan- Dec | | Jan- Aug |
| | 2014 | | 2015 | | 2016 |
| U.S. | 13 | U.S. | 14 | U.S. | 1 |
| Others | | Others | | Others | |
| Japan | 56 | Japan | 36 | Japan | 5 |
| Belgium | 16 | Belgium | 17 | Belgium | 3 |
| Italy | 13 | Italy | 6 | Italy | 1 |
| Korea Rep. of | 10 | Netherlands | 6 | Portugal | 1 |
| Germany, Fed. Rep. | 10 | Germany, Fed. Rep. | 5 | | |
| Turkey | 8 | Israel | 5 | | |
| Netherlands | 7 | China | 5 | | |
| Cambodia | 7 | Turkey | 4 | | |
| Vietnam | 7 | Cambodia | 4 | | |
| Bangladesh | 6 | Vietnam | 4 | | |
| Israel | 4 | Bangladesh | 4 | | |
| China | 3 | Portugal | 4 | | |
| Portugal | 3 | Korea Rep. of | 3 | | |
| Brazil | 3 | Thailand | 3 | | |
| Thailand | 2 | United Arab Emirates | 2 | | |
| United Arab Emirates | 2 | Malaysia | 2 | | |
| Malaysia | 2 | Spain | 2 | | |
| Spain | 2 | Brazil | 1 | | |
| Canada | 2 | Canada | 1 | | |
| Singapore | 2 | Singapore | 1 | | |
| Hong Kong | 1 | Hong Kong | 1 | | |
| Philippines | 1 | Philippines | 1 | | |
| | | | | | |
| Total for Others | 167 | Total for Others | 117 | Total for Others | 10 |
| Others not Listed | 8 | Others not Listed | 7 | Others not Listed | 5 |
| Grand Total | 188 | Grand Total | 138 | Grand Total | 16 |

Source: Global Trade Atlas.

Note: Exchange rate is Rp. 13,084/\$ 1, as of November 9, 2016.

